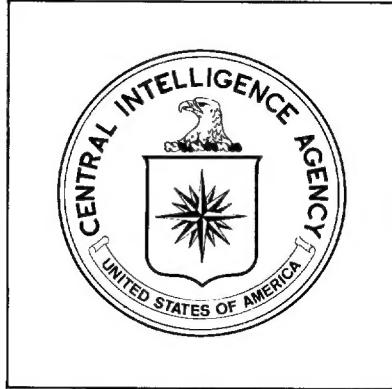


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This publication is prepared for regional specialists in the Washington community by the Western Europe Division, Office of Current Intelligence, with occasional contributions from other offices within the Directorate of Intelligence. Comments and queries are welcome. They should be directed to the authors of the individual articles.

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Parties Consulted on New Portuguese Government

Portuguese President Costa Gomes and Prime Minister-designate Azevedo discussed formation of a new government this weekend with representatives of six of the country's political parties.

According to Lisbon radio, present speculation is that a coalition comprising the Socialists, the center-left Popular Democrats, and the Communists will be expanded to include members of the anti-Communist Melo Antunes faction.

In addition to these parties, talks have also been held with the hard-line pro-Communist Movement of the Socialist Left, the Communist front Popular Democratic Movement, and the center-right Social Democratic Center. It is believed these parties will not participate in the government, but have only been consulted to secure multiparty support.

There has been very little reaction to Friday's rump session of the Armed Forces General Assembly and the ouster of former prime minister Goncalves. Goncalves' supporters appear to feel that they have suffered a reversal. On Saturday evening his entire pro-Communist cabinet resigned, stating that it could no longer continue because Friday's events had fundamentally altered the political situation. The resignations came despite an appeal by Costa Gomes to stay on until the new cabinet is formed.

According to [redacted], the Antunes group, which did not attend the general assembly session, saw the meeting as merely a holding action. The

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group is reported to feel that it has neither gained significantly nor lost ground. It is said to be seeking further to restructure the Revolutionary Council to bring its members more in line with its own anti-Communist thinking.

The first reaction from the parties came from a leading Popular Democrat, who demanded that the ruling Armed Forces Movement be dissolved, that the Revolutionary Council be scrapped, and that the military be subordinated to a democratic, civilian administration. He was probably seeking to gain a strong position for his party in the new government.

Army Chief of Staff Fabiao said yesterday that the parties are incapable of leading Portugal out of its present crisis, and sources close to both Costa Gomes and Azevedo say the two are unlikely to relinquish power to an all-civilian government at this time.

Meanwhile, Central Military Region commander General Charais--a strong Antunes supporter--sought to forestall any Communist attempt to take advantage of the present uncertainty. He warned that an attempted coup by Goncalves' Communist supporters would be "suicidal." Furthermore, he said, it would lead not only to civil war but also to a right-wing dictatorship. (Secret No Foreign Dissem/Controlled Dissem)

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Giscard Proposes New Economic Measures for France

President Giscard d'Estaing has called a special session of the French Assembly from September 9 to 13 for debate on economic and social issues. He apparently hopes the session will help offset widespread criticism that he failed to recognize the gravity of the nation's problems and launch a workable recovery program.

The French government has realized in the past few weeks that its catchy rhetoric and half-hearted measures have been insufficient to satisfy the nation, which is preoccupied with unemployment and inflation.

Giscard set the stage last Thursday in a televised news conference, proposing drastic measures, including \$7 billion in expenditures and tax credits and a sharp cut in interest rates. The government hopes this program will halt a year of steady economic decline. Assembly approval of the measures is expected during the special session, but its debate will continue during the regular autumn session, which opens on October 2.

Rising government concern over unemployment was a major factor determining the size of the proposed program. The number of jobless, which doubled over the past year to 885,000, should go over 1.2 million by December, and could go even higher. French officials have concluded they cannot wait for an upturn in the US and West German economies to pull France out of the recession.

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The new measures focus particularly on public works projects that can be initiated quickly. About \$2.5 billion will go for construction of highways, railroads, and canals; housing contructions subsidies will be increased.

The program aims at boosting private spending through increased family allowances and increasing investment through corporate tax cuts. In addition, a sharp cut in the bank rate from 9.5 to 8 percent should lower other interest rates. All of these steps are generally in line with earlier anti-recession moves, although larger in magnitude.

Opposition Views

The trade unions are urging universal reduction of the workweek from 42 to 40 hours without loss of pay, a 30-percent increase in the minimum monthly wage, a lower retirement age, and the creation of 150,000 jobs in the public sector. The Communists have offered an even more extensive program, but have been criticized in the press for failing to specify how it would be funded.

Financing the government's program will push this year's budget deficit to \$12 billion, about 3.5 percent of gross national product, a huge amount by French standards.

The new measures will probably have little economic effect this year, beyond an immediate psychological impact. Unemployment will continue to rise rapidly through the fall as new graduates enter the labor force. Industrial production will remain far below the 1974 peak, although some improvement could occur by year-end.

The government's program should, however, amplify the recovery in private demand that is expected to begin early next year. The selling

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off of accumulated inventories, which contributed heavily to the present recession, should end within a few months and be followed by some new production to rebuild stocks. Business surveys indicate that private investment in plant and equipment will recover strongly next year from the present depressed level.

Political Goals

Giscard is aiming at political as well as economic targets with his program. He will probably propose additional measures to the Assembly later this year. Although he is aware of the risks of alienating some of his conservative supporters, the President also hopes to win support on the left. He has already received plaudits from among the Left Radicals, the junior partner in the Communist-Socialist alliance.

The divisions within the left parties and unions will allow Giscard at least to buy time with the new program. The almost one-year-old public debate between the Communists and Socialists, as well as their internal splits, not only diminish the effectiveness of their opposition to the government, but also divert public attention from issues the left could exploit to advantage.

Continued Communist-Socialist competition can be expected to be a dominant theme on the national political scene this fall, especially among the workers. The leftist unions, meanwhile, are still recovering from setbacks they suffered over the last year when they failed to mobilize the rank and file behind their demands. These unions--the two largest--have been restrained in their statements about possible labor agitation in the next few weeks.

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Union leaders realize that rising unemployment and limited funds to support major strike actions will hold back radicalism among the rank and file, who fear job losses. (Confidential)

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Jura Separatist Movement Suffers Another Setback in Switzerland

The ambitions of the Jura separatist movement were dealt a severe blow yesterday in the last of a series of plebiscites concerning the creation of a new canton for French-speaking Swiss. Voters in seven of ten border communities chose to remain in Bern canton rather than join the new canton which was authorized last year.

The close vote between the pro- and anti-separatists in the industrial town of Moutier--the economic hub of the Jura region--precipitated widespread violence. After their defeat, pro-separatists went on an eight-hour rampage--ripping up cobbled streets, sacking homes of opponents, and hurling Molotov cocktails at police armored cars. Riot police restored order only this morning.

The vote should bring an end to the decade-long controversy. No further plebiscites are required and attempts by pro-separatists to promote their cause will only trigger a strong negative reaction. The anti-separatists--essentially French-speaking Protestants--have now indicated at the cantonal, district, and local level that they want no part of the new canton which will be predominantly Catholic.

The new canton will consist essentially of the three districts that are collectively called "North Jura"--the mountainous area directly bordering France--and the three communities that decided yesterday in favor of the new canton. (Unclassified)

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Greek Military Chiefs Support Role in NATO

The Greek armed forces chiefs reportedly have recommended that Athens be forthcoming when the NATO allies discuss the status of Greece's relations with the Alliance later this month.

[REDACTED] that the military leaders recommended to Defense Minister Averoff that:

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- Greece continue to participate in NATO's military committee, and maintain its representatives at SHAPE and its liaison relationship with NATO's Southern Command.
- The Greek First Army remain under Greek command in peacetime but be subordinated to NATO's Southern Command in the event of war.
- Military units in Greece equipped with nuclear delivery systems should be immediately subordinated to the Southern Command. (No Greek forces have been under a NATO commander since Athens withdrew from the Alliance's integrated military structure last year.)
- Athens decide on an individual basis whether Greek forces will participate in NATO exercises. All such exercises on Greek soil should be under Greek

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command. (This indicates that the Greeks would again participate in at least some NATO exercises.)

--The intelligence exchange with NATO be broadened to include all areas, and not the Mediterranean area only.

Both Averoff and Prime Minister Karamanlis will have to approve these recommendations. Averoff probably will. If Karamanlis concurs, and Athens implements these proposals, Greece would be taking a large step toward reintegrating its forces into the military side of NATO.

25X1C [REDACTED] have confirmed that Karamanlis would like to restore Greece to full military membership in the Alliance. However, only a settlement of the Cyprus issue and a corresponding improvement in Greek-Turkish relations is likely to make it politically feasible for him to do so. Consequently, Karamanlis is likely to proceed cautiously.

NATO has a direct interest in improved relations between Greece and Turkey because their cooperation in the areas of communications and planning is necessary to restore the integrated regional command structure required for an effective defense of the southern flank. The Greek ambassador to NATO is scheduled to make a statement on this subject to the North Atlantic Council on September 17. The Defense Planning Committee will meet the same day to discuss procedural steps involved in this question.
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